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C O N F I D E N T I A L SECTION 01 OF 02 PARIS 004235

SIPDIS

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SUBJECT: CHIRAC TO PRESS HIS ATTACK ON THE BRITISH REBATE
AND SEEK ENLARGEMENT SLOWDOWN AT EUROPEAN COUNCIL

Classified By: Political Minister Counselor Josiah Rosenblatt for reasons 1.4 (b) and (d).

1. (C) Summary: President Jacques Chirac, licking his wounds in the wake of French voters' rejection of the EU constitution May 29, will attempt to negotiate results at the June 16-17 European Council that bolster his sagging popularity at home and demonstrate that he "heard the message" of the referendum revolt. Having secured German Chancellor Schroeder's support for a defense of the Common Agricultural Policy (CAP), and having established Prime Minister Blair's unwillingness to compromise on the rebate unless the CAP is also on the table, Chirac will attempt to isolate the UK and blame any failure to agree on the 2007-2013 EU budget on Blair's "intransigence." Chirac is also likely to seek a slowdown on future enlargement decisions, and to insist on Turkey's strict compliance with EU conditions before accession talks can open. Chirac, according to British Embassy sources commenting on his June 14 meeting with Blair, appeared to be angling for a "pause" in the enlargement process in return for agreement to "pause" the constitutional ratification process sought by Blair. End summary.

2. (C) With his popularity ratings at an all-time low in the wake of French voters' rejection of the EU constitution May 29, President Chirac heads to the Brussels European Council June 16-17 determined to salvage what he can from the European crisis the French "no" precipitated. Chirac wants above all to demonstrate to voters at home that he has "heard the message" of the referendum and is serious about addressing voters' concerns. Conveniently ignoring considerable evidence that part of what the French public voted against was Chirac, himself, the president has focused on voters' fear for their jobs and social welfare benefits, and their unhappiness over the EU's most recent, 10-member enlargement. His priorities will therefore be to ensure that there is no erosion of benefits channeled to France from the EU (mostly in the form of subsidies to French farmers), to limit new EU spending, and to insist that member states hold the EU's enlargement process on a tight rein.

3. (C) MFA Unit Chief for the Future of Europe Philippe Setton and Prime Minister de Villepin's advisor on European economic affairs Rainier Daussonville told us June 14 that Chirac may be prepared to move off France's earlier insistence that the 2007-2013 EU budget increase be held to 1 percent of EU GDP, if he is satisfied that the cost of financing the most recent enlargement is being shared equally. This implies, according to Setton, that French flexibility on the budget increase will be tied to the UK conceding part or all of its euros 4.6 billion rebate. Chirac put the "British check" squarely in his sights during his joint press conference with Schroeder in Paris June 10 when he told reporters that "our British friends have to realize ... that things are evolving and that, consequently, there is a greater necessity for equity in the charges each of us supports. Something that has consequences for how one might assess the technique, antiquated today, of the British check." Setton explained that economic conditions today in Britain are completely different than they were in 1984, when the rebate was voted. Today, with low unemployment and a reasonable rate of growth, the UK economy is among the healthiest in the Union.

4. (C) Chirac will resist Blair's attempt to reopen the 2002 decision to defer any revision of the CAP until 2013. With France receiving 21 percent of the agricultural subsidies doled out to EU member state farmers under the program, and with few if any other member states prepared to follow the British lead on this issue, Chirac has no incentive to compromise. To do so would be politically impossible for Chirac, Setton pointed out. Moreover, according to Setton, the French believe that most member states agree with France that the British rebate is no longer justified. If the UK were prepared to compromise on the rebate, France could move closer to the Luxembourg presidency's compromise proposal of a 1.06 percent of GDP spending increase for the 2007-2013 budget, Setton told us. Chirac bolstered his case when Schroeder declared his "complete agreement" with Chirac on the CAP during their June 10 summit in Paris. In a meeting which British Embassy contacts here described as cordial throughout, Chirac told Blair June 14 of his unwillingness to reopen consideration of the CAP. The only concession Chirac

might be prepared to make would be to accept another compromise proposed by the Luxembourg presidency that would exempt the 10 new member states from financing the CAP, redistributing those costs among established member states.

15. (C) Chirac's second priority for the Council will be to ensure that EU members states have full control over the enlargement process and that the EU move much more deliberately toward any future enlargement. While France may be prepared to omit mention of specific enlargement processes in the Council declaration, Chirac will spend time airing his concerns privately in the Council corridors. Our British Embassy contacts told us that Chirac was very negative in assessing the potential impact on European public opinion that opening membership negotiations with Turkey on October 3 would have. They believe that Chirac may be looking for a way to delay the start of negotiations. Some of this determination to go slow on enlargement was reflected in new Foreign Minister Philippe Douste-Blazy's lengthy interview with center-right leaning daily Le Figaro June 13. Douste-Blazy told the newspaper that he believed a framework already existed for admission of Romania and Bulgaria, and that, as long as they met the conditions, there would be "no cause to question their entry." He contrasted this, however, with Turkey's situation, saying that it "should be clear that we will be very vigilant (in insisting that) there will be no opening of negotiations with Turkey unless it respects the conditions imposed by the European Council."

16. (C) Finally, Chirac now appears to be prepared to join consensus, if one emerges, on the need for a "pause" in the ratification process. While at Schroeder's side, conscious that the Germans had already ratified the constitutional treaty, Chirac stuck to his public line June 10 that the decision to continue with planned referendums or parliamentary decisions on the constitution should belong to the member states concerned. Privately, according to our British Embassy contacts, Chirac told Blair that it might be best not to proceed with a process that risked producing additional no's from (potentially) Luxembourg, Denmark and others that would only deepen the European crisis. Chirac, our contacts said, seemed to be aiming for a British commitment to support a "pause" on enlargement and for the suspension Blair seeks of the constitutional ratification process.

17. (C) During his intervention in the National Assembly June 15, Chirac's new Prime Minister and long-time protege Dominique de Villepin evoked all of these issues in detailing the French position going into the European Council. Villepin noted that France could not/not agree to increase its EU contribution to 1.24 percent of GDP per year (per the Commission proposal), noting that the move from 1 percent to 1.24 percent, while seemingly miniscule, would equal around 1.2 billion euros a year, or almost 10 billion euros for the entire budget cycle. He also warned against implementing parts of the treaty piecemeal, noting that the French people had rejected the treaty. In his closing remarks, he also said that the failure of the constitutional treaty had posed the question of the ties between enlargement and deepening of European relations. "We all know," he said, "that the rapidity of (the May 2004) enlargement, even if it responded to a veritable historical imperative, nonetheless really hit our fellow citizens ... this sentiment was expressed on May 29, and we must take account of it." The French, he said, "want to know in what kind of Europe they will build their future and what will be its frontiers."

Comment

18. (C) His stinging defeat in the referendum and his plummeting popularity rating leave Chirac with few options but to project himself as the protector of French interests at the European Council. He calculates that most member states agree with France on the need to eliminate or scale back the British rebate and he assesses that Blair has little support for reopening the CAP. He is, therefore, likely to hang very tough on both issues -- even if the result is a failure to reach compromise on the 2007-2013 EU budget in Brussels. Perhaps recognizing that such a failure will not sit well with new member states, Chirac is likely to make known his willingness to accept a spending increase very close to the Luxembourg presidency's 1.06 percent compromise proposal. He may also, in extremis, be willing to concede an exemption to the new members on financing the CAP. In return, he will want agreement on the need for a pause to reflect on the most recent enlargement and to consolidate before future expansions. This is likely to have implications, if not for Bulgaria and Romania, then certainly for the Balkan states, Ukraine, Georgia and other former NIS states, and above all, for Turkey. End comment.

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